AURUM

Multi-Strategy

MULTI-STRATEGY DEEP DIVE

12-month review to February 2021

Overview

This is an interesting period to review performance of the multi-strategy master strategy, because it includes two particularly challenging months for the hedge fund industry, March 2020 and January 2021. To put the performance of multi-strategy hedge funds into context it is helpful to recall what happened across major markets over the past 12 months. Global equities, and many other asset classes, started to sell-off in February 2020, followed by severe dislocations in March 2020 as COVID-19 spread globally. Quick and decisive central bank intervention, however, encouraged investor confidence and triggered rebound rallies across assets; global equities finished 2020 up in the mid-teens as a percentage, led by strength in the US equity markets, whilst equities in Europe, UK and Hong Kong struggled. Energy commodities sold off significantly, due to the impact of COVID-19 on global industrial output and consumer demand. Meanwhile, 'safe haven' assets, such as gold and silver, experienced strong rallies. On the fixed income side, global yields fell across the board.

The re-emergence of the retail investor is a phenomenon that has been spoken about for some time. This came into the limelight at the start of 2021 when a group of young retail investors, communicating through social media, targeted certain heavily-shorted stocks in a coordinated short-squeeze in January. This caused unprecedented moves in a small number of stocks, generating severe losses for a number of funds employing equity long/short strategies with short positions in these stocks. The spill-over from this event into the broader market sparked significant deleveraging that adversely affected the wider hedge fund universe, albeit this was contained mainly within the equity long/short space. February then saw a meaningful reversal and re-tightening of the dislocations that were created in January, with many hedge funds posting their best monthly performance ever.

All–in all, this has been both a challenging and rewarding period for hedge funds, with some suffering severe losses at these inflection points, while others capitalised on the opportunities created by the dislocations. Multi-strategy funds typically have exposure across all strategies and asset classes and were at the forefront of these dislocations. Despite showing significantly higher than normal volatility, as a group, they have come through this period with significant positive performance.

Multi-strategy funds invest across a broad range of areas and Aurum's Hedge Fund Data Engine does not have industry-wide data on the performance attribution of the underlying sub-strategies within multi-strategy funds. However, examining the performance of hedge fund strategies on a standalone basis sheds some light into the potential main drivers of multi-strategy funds' recent returns.

Performance

The past 12 months have been a stellar period of performance for the multi-strategy peer group, with a 12-month net return of 17.91%*, significantly higher than the historical performance average of the strategy.

NET RETURN OF MASTER AND SUB-STRATEGIES

Net Performance[3]	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	12 month return
Multi-Strategy	**-3.99%**	**3.04%**	**1.98%**	**2.41%**	**1.95%**	**1.38%**	**0.76%**	**0.54%**	**2.37%**	**3.21%**	**-0.32%**	**3.50%**	**17.91%**
Arbitrage	-2.73%	1.01%	0.85%	2.17%	2.04%	1.04%	0.95%	0.26%	1.98%	2.45%	1.91%	2.33%	15.14%
Credit	-12.80%	2.45%	2.80%	2.65%	1.32%	1.33%	0.63%	0.32%	3.37%	2.01%	1.78%	1.85%	6.83%
Equity L/S	-8.03%	5.73%	3.35%	2.26%	2.45%	2.94%	-0.03%	0.14%	5.69%	4.57%	-2.21%	3.81%	21.72%
Event Driven	-7.93%	4.52%	2.43%	2.06%	2.04%	2.52%	0.02%	-0.14%	5.67%	3.80%	0.73%	2.57%	19.13%
Long biased	-12.01%	6.84%	3.04%	2.30%	3.92%	3.26%	-1.79%	-0.53%	7.65%	3.60%	0.63%	1.08%	17.84%
Macro	-5.98%	2.13%	2.57%	1.25%	1.99%	1.67%	-0.85%	0.17%	2.93%	2.39%	0.05%	0.07%	8.38%
Quant	-4.39%	0.61%	-0.07%	-0.88%	1.29%	0.01%	-1.25%	-0.99%	0.49%	2.77%	-1.43%	0.89%	-3.07%
HF Composite	-8.18%	3.80%	2.30%	1.72%	2.31%	1.99%	-0.47%	-0.14%	4.25%	3.24%	-0.27%	2.00%	12.61%

All figures and charts use asset weighted returns unless otherwise stated. All data is sourced from Aurum Hedge Fund Data Engine.

1. Aurum Hedge Fund Data Engine Asset-Weighted Composite Index.

** Source Aurum Hedge Fund Data Engine database containing data on just under 4,000 hedge funds representing in excess of $2.9 trillion of assets as at December 2020. Information in the database is derived from multiple sources including Aurum's own research, regulatory filings, public registers and other database providers. By fund assets (Feb): 85%. By no. of funds (Feb): 72%. (as at 25/03/2021)*

For definitions on how the Strategies and Sub-Strategies are defined please refer to https://www.aurum.com/hedge-fund-strategy-definitions/ , and for information on index methodology, weighting and composition please refer to https://www.aurum.com/aurum-strategy-engine/

Performance (cont.)

Equity long/short (+21.7%) and event-driven (+19.1%) are the only hedge fund master strategies that have performed better than multi-strategy during this 12-month period. Long-biased strategies closely follow multi-strategy (+17.8%), while arbitrage (+15.1%) rounds up the strategies that returned double digits. Macro (+3.8%) and credit (+6.83%) also generated positive returns, albeit in single-digits, while quant (-3.1%) was the only hedge fund strategy that lost money over the past 12 months. The hedge fund composite return[1] for the period from March 2020 to February 2021 was +12.6%, highlighting a very strong period of performance for hedge funds in general.

However, in March 2020 all sub-strategies, with the exception of tail protection, suffered losses. The overall performance of each sub-strategy over the past 12 months was determined less by the magnitude of the loss in March, and more by the performance and consistency of the strategy in the period thereafter. This is illustrated most acutely by the equity long/short sub-strategies that were the most adversely affected in March, yet finished the year with the best performance following an impressive recovery, particularly some Asian Pacific and sector-specialist funds.

Equity long/short was likely an important driver of returns for multi-strategy funds over the past year, but equity long/short performance is not necessarily the best proxy for equity returns within multi-strategy hedge funds, many of which access equities through their multi-PM fundamental equity market neutral platforms. These multi-PM equity market neutral platforms within multi-strategy funds are hugely diversified, have negligible beta or style factor exposure, and are highly levered, resulting in unique risk/return characteristics that cannot be replicated by any standalone sub-strategy.

Event-driven and arbitrage strategies suffered their fair share of losses in March, but were the most consistent strategies in the period thereafter, generating positive returns in every one of the next 11 months. Increased deal flow, tightening merger and other arbitrage spreads, record issuance in convertibles, and a renewed opportunity in SPACs, fuelled this recovery. While tail protection funds had a very strong March (+24.2%), the strategy gave back around two thirds of those gains over the next 11 months. Volatility arbitrage also had a lacklustre year (+2.7%).

Credit was one of the hardest hit strategies in March, and while it staged a consistent recovery, the strategy ended the 12-month period with only single-digit gains. Within credit, the smaller sub-strategy, distressed credit (+11.8%), outperformed general credit (+4.8%). There was also dispersion within macro, with fixed income relative value, for example, generating consistent returns, while emerging markets macro returns were more lumpy; commodity trading had a strong and consistent year and global macro performed better on a relative basis in the first half of the year than in the second half. Quant had a poor year with three sub-strategies in negative territory, quant macro (-2.3%), risk-premia (-4.3%) and quant equity market neutral (-17.9%), while statistical arbitrage (+8.9%) and CTAs (+4.1%) partially offset some of those losses. Some of the higher-performing multi-strategy funds Aurum monitors have quant exposure biased towards statistical arbitrage, and a handful of those enjoyed stellar returns in the aftermath of the March dislocation.

Looking at dispersion, more beta-sensitive strategies like long-biased and equity long/short, saw the largest dispersion. We see evidence of some correlation between the strategies with the greatest dispersion and those that performed the strongest over the past year. March 2020 stands out as a month with extremely high levels of dispersion in the interquartile ranges, as well as very wide tails. Surprisingly, while a handful of hedge funds made the news for their enormous losses in January 2021, on a strategy and industry level, the statistics point to a relatively benign month for hedge funds overall with only average levels of dispersion. It certainly didn't feel that way in the last week of January, with a number of prime brokers reporting record-breaking negative alpha days in the equity long/short space, driven by massive short covering.

Looking at hierarchical annualised net returns by strategy over different time periods, multi-strategy consistently ranks in the top-half relative to other strategies, and is the best performing strategy over three years and ten years compounding at rates of 9.2% and 7.5% respectively; multi-strategy ranks third over one year and fourth over five years, with compound rates of return of 17.9% and 8.7% respectively. The fact that multi-strategy funds have outperformed the broader hedge fund universe can be attributed to tactical and more opportunistic capital allocation, as well as the enhancement of returns through the use of leverage. The relatively lower volatility and higher Sharpe can be attributed to multi-strategy funds' broader diversification.

Assets Under Management

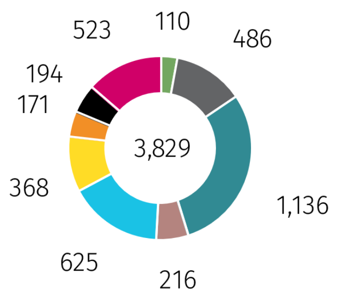
In terms of asset growth, our data suggests $53.1bn of growth in AUM of the multi-strategy group, of which $42.5bn can be attributed to performance. A reason for this is that a number of the largest and most successful multi-strategy hedge funds are currently closed to additional capital, and some even return profits to investors at the end of each year. New fund launches and growth of some smaller multi-strategy funds account for the growth of AUM through net subscriptions. Multi-strategy is comprised of a relatively smaller number of funds than other master strategies. The largest and most successful of these funds dominate a larger proportion of the assets of the multi-strategy master strategy than other strategies, which are less concentrated and the returns are diluted toward the mean.

Conclusion

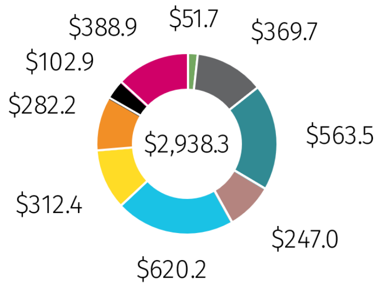
This past 12 months has been one of the best periods for multi-strategy funds, generating some of their strongest returns both from an absolute return basis, as well as relative to other strategies. Multi-strategy funds, which tend to be larger in size, provide industry-leading infrastructure and support to portfolio managers and they have the ability to attract some of the best talent from the industry. They can strategically allocate capital, they run very diversified portfolios, and utilise leverage to enhance returns. All of these attributes have served multi-strategy funds well over time and put them in a strong position to continue to do well in the future.

Key Numbers

NUMBER OF FUNDS

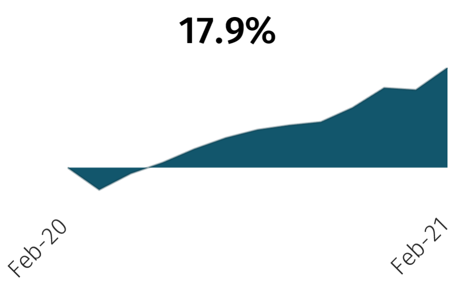


AUM ($ BN)

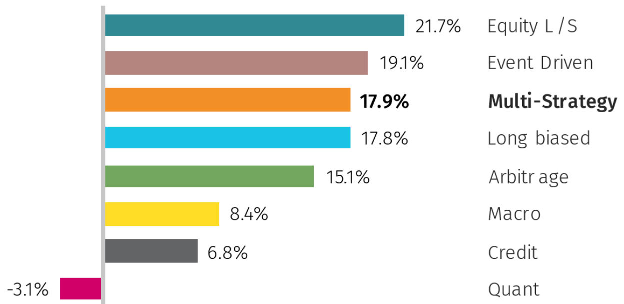


Arbitrage | Credit | Equity L/S | Event Driven | Long biased
Macro | Multi-Strategy | Other | Quant

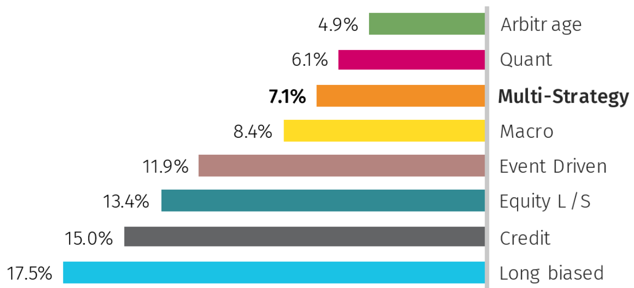
MULTI-STRATEGY NET RETURN (1 YR)



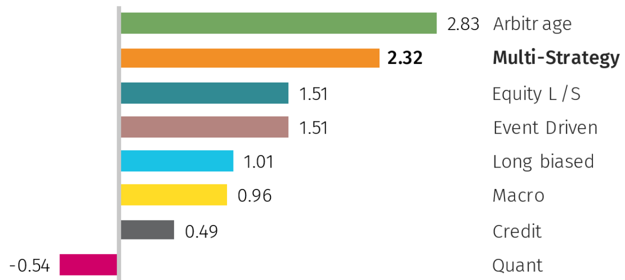
MASTER STRATEGY NET RETURN (1 YR)



STANDARD DEVIATION (1 YR)



SHARPE RATIO (1 YR)*

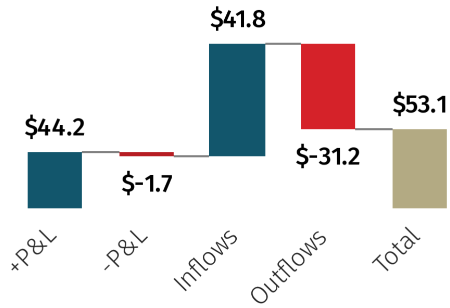


MULTI-STRATEGY NET POS/NEG MONTHS (1 YR)

83.3% positive months

16.7% negative months

MULTI-STRATEGY AUM CHANGE $BN (1 YR)



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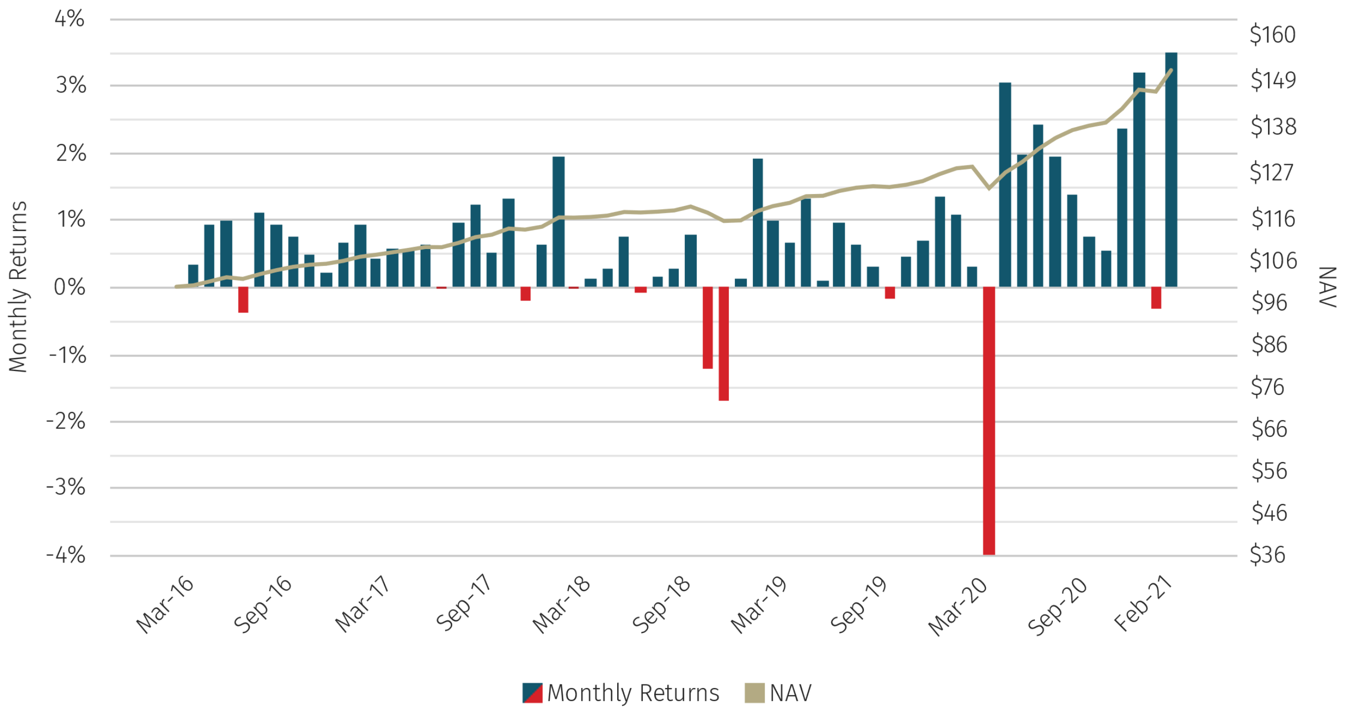
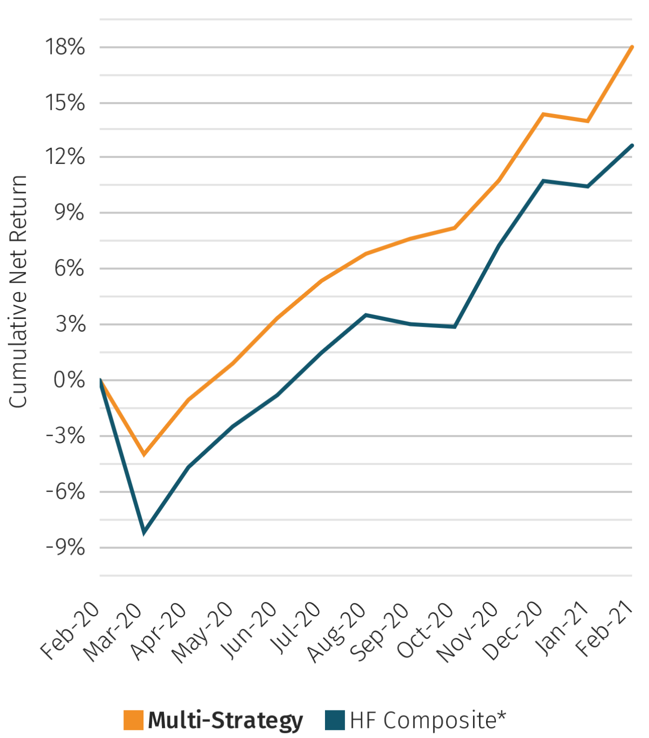
*Risk Free Rate = period average of 3-month US Libor 0.37%. Source: Bloomberg.
Source: Aurum Hedge Fund Data Engine.

Multi-Strategy Performance

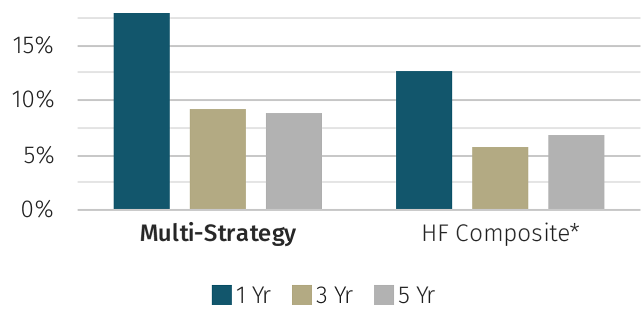
NET MONTHLY RETURN (5 YR)



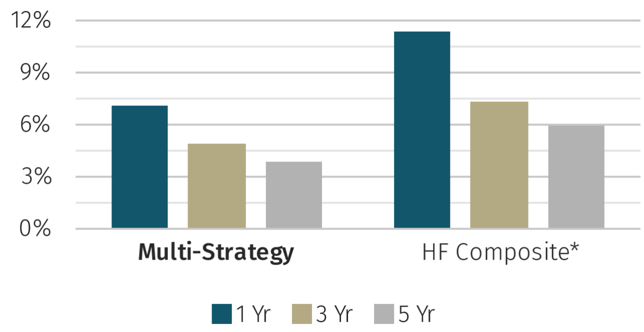
RELATIVE RETURN VS HF COMPOSITE (1 YR)



NET RETURN (ANNUALISED)

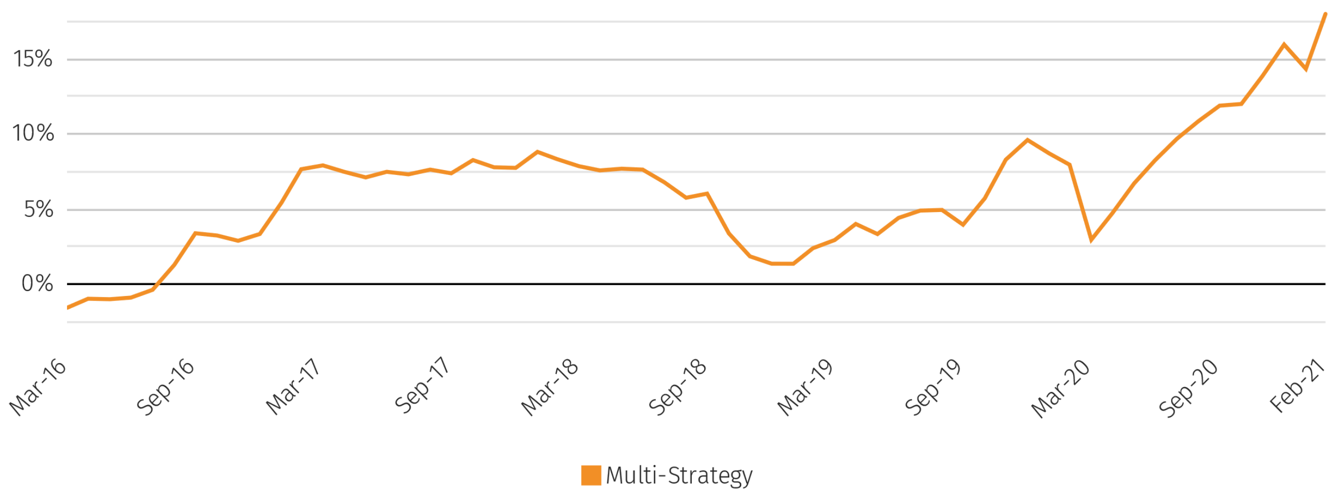


VOLATILITY (ANNUALISED)

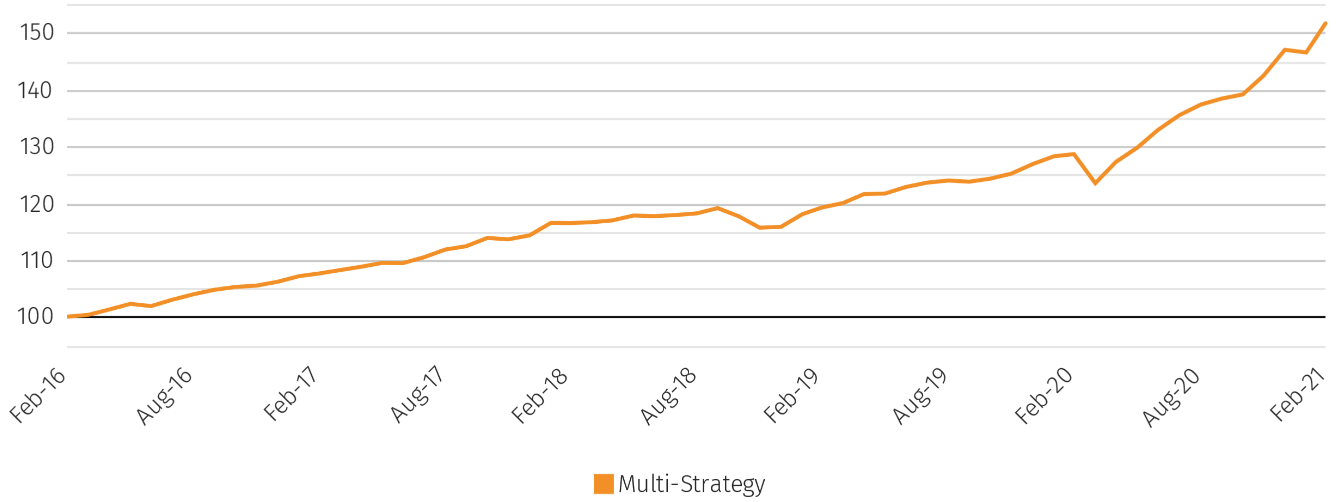


*HF Composite = Aurum Hedge Fund Data Engine Asset Weighted Composite Index
Source: Aurum Hedge Fund Data Engine.

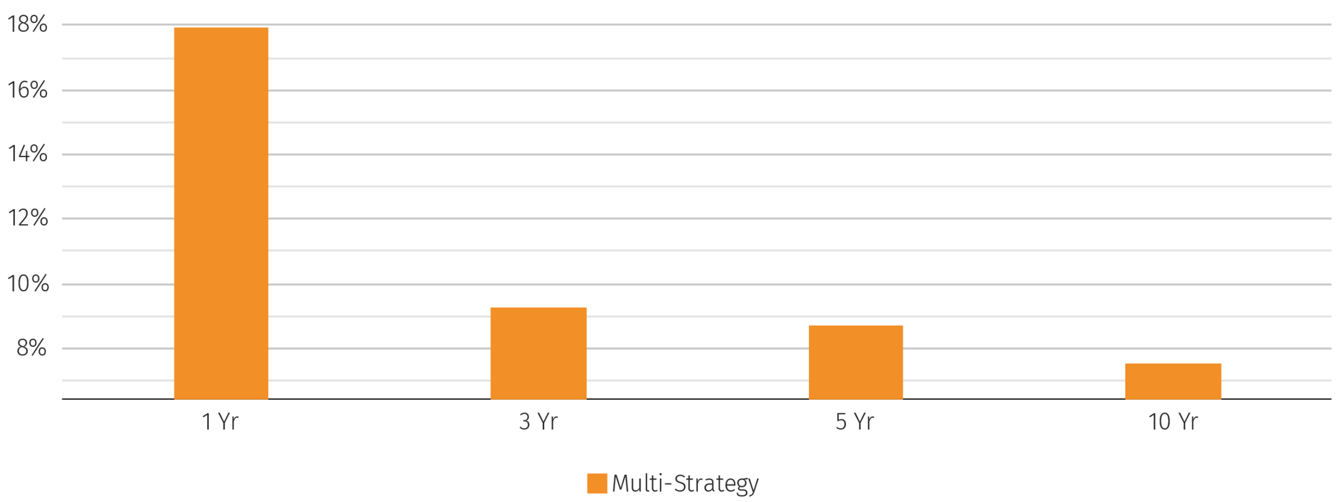
ROLLING 12 MONTH NET RETURN (5 YR)



CUMULATIVE NET RETURN (5 YR)



COMPOUND ANNUAL RETURN (ANNUALISED)



Hedge Fund Strategy Performance

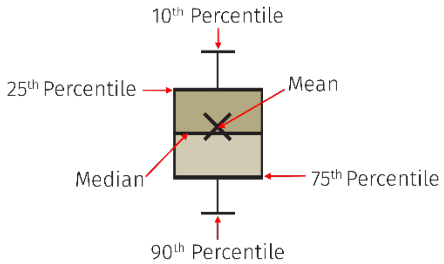
NET RETURN OF MASTER STRATEGIES (1 YR)

Net Performance[3]	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	12 month return
Arbitrage	-2.73%	1.01%	0.85%	2.17%	2.04%	1.04%	0.95%	0.26%	1.98%	2.45%	1.91%	2.33%	15.14%
Credit	-12.80%	2.45%	2.80%	2.65%	1.32%	1.33%	0.63%	0.32%	3.37%	2.01%	1.78%	1.85%	6.83%
Equity L/S	-8.03%	5.73%	3.35%	2.26%	2.45%	2.94%	-0.03%	0.14%	5.69%	4.57%	-2.21%	3.81%	21.72%
Event Driven	-7.93%	4.52%	2.43%	2.06%	2.04%	2.52%	0.02%	-0.14%	5.67%	3.80%	0.73%	2.57%	19.13%
Long biased	-12.01%	6.84%	3.04%	2.30%	3.92%	3.26%	-1.79%	-0.53%	7.65%	3.60%	0.63%	1.08%	17.84%
Macro	-5.98%	2.13%	2.57%	1.25%	1.99%	1.67%	-0.85%	0.17%	2.93%	2.39%	0.05%	0.07%	8.38%
Multi-Strategy	**-3.99%**	**3.04%**	**1.98%**	**2.41%**	**1.95%**	**1.38%**	**0.76%**	**0.54%**	**2.37%**	**3.21%**	**-0.32%**	**3.50%**	**17.91%**
Quant	-4.39%	0.61%	-0.07%	-0.88%	1.29%	0.01%	-1.25%	-0.99%	0.49%	2.77%	-1.43%	0.89%	-3.07%
HF Composite	-8.18%	3.80%	2.30%	1.72%	2.31%	1.99%	-0.47%	-0.14%	4.25%	3.24%	-0.27%	2.00%	12.61%

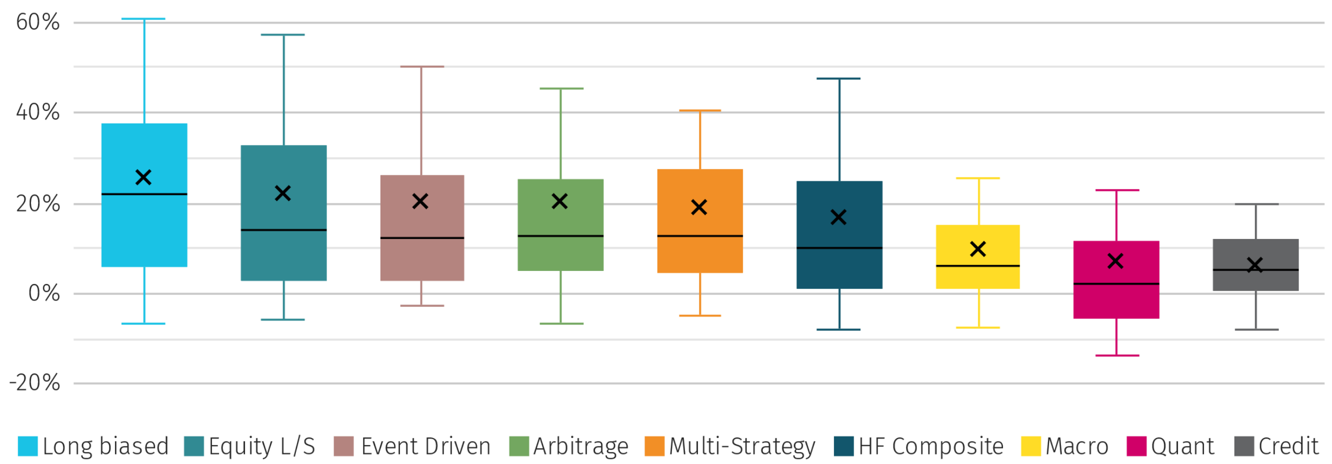
NET RETURN OF SUB-STRATEGIES (1 YR)

Net Performance[3]	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	12 month return
Event Driven - Activist	-11.27%	10.72%	5.90%	2.59%	3.59%	5.19%	-1.32%	-1.17%	13.34%	4.38%	0.40%	5.09%	41.58%
ELS - APAC	-4.62%	4.07%	3.16%	4.84%	5.83%	2.79%	-0.87%	2.14%	2.59%	5.85%	2.37%	-0.24%	31.15%
ELS - Sector	-11.05%	7.78%	5.78%	3.71%	2.20%	3.55%	0.79%	0.91%	6.72%	5.43%	-2.10%	3.74%	29.36%
ELS - Other	-12.19%	5.99%	1.58%	5.10%	4.53%	1.60%	-1.33%	0.60%	7.71%	6.14%	4.74%	1.96%	27.87%
Arb Opportunistic	-9.84%	3.04%	2.26%	4.02%	4.11%	2.50%	1.71%	0.46%	3.60%	4.92%	4.17%	4.08%	26.97%
ELS - US	-8.88%	6.87%	3.38%	1.16%	2.87%	3.24%	-0.78%	-0.79%	7.54%	4.25%	-2.70%	4.43%	21.27%
Event Driven - Opportunistic	-9.71%	4.95%	2.66%	2.15%	2.47%	2.94%	0.05%	-0.11%	6.31%	5.12%	0.60%	2.18%	20.34%
Convert Arb	-6.29%	3.21%	1.23%	2.67%	3.38%	2.46%	0.87%	0.76%	3.02%	2.19%	2.35%	1.83%	18.73%
ELS - Global	-7.73%	5.60%	2.30%	1.19%	1.91%	3.74%	-0.45%	0.00%	5.80%	4.83%	-4.65%	5.56%	18.50%
Multi-Strategy	**-3.99%**	**3.04%**	**1.98%**	**2.41%**	**1.95%**	**1.38%**	**0.76%**	**0.54%**	**2.37%**	**3.21%**	**-0.32%**	**3.50%**	**17.91%**
Long biased	-12.01%	6.84%	3.04%	2.30%	3.92%	3.26%	-1.79%	-0.53%	7.65%	3.60%	0.63%	1.08%	17.84%
Other	-5.07%	3.83%	2.58%	2.62%	3.37%	2.96%	0.09%	-0.65%	4.47%	1.91%	-0.24%	-0.41%	16.17%
Commodities	-2.85%	4.84%	0.72%	0.31%	1.90%	0.69%	-0.67%	0.21%	2.59%	2.31%	0.84%	3.70%	15.37%
Event Driven - Merger Arb	-6.42%	4.00%	0.74%	1.17%	1.29%	0.55%	0.77%	0.57%	3.62%	2.87%	2.39%	1.13%	13.00%
Fundamental EMN	-6.11%	3.45%	0.96%	1.50%	1.07%	1.07%	0.85%	0.78%	3.17%	3.25%	-2.03%	4.36%	12.56%
ELS - Europe	-4.28%	3.18%	2.40%	1.42%	1.74%	1.38%	0.48%	-1.15%	3.37%	2.57%	-1.62%	2.62%	12.49%
Distressed Credit	-13.42%	3.42%	2.79%	2.66%	1.13%	1.64%	0.87%	-0.12%	5.51%	2.55%	2.32%	3.15%	11.75%
Event Driven - Multi-Strategy	-5.36%	2.12%	1.31%	1.95%	1.24%	1.48%	0.44%	0.15%	2.34%	2.76%	0.63%	1.97%	11.34%
Global Macro	-4.61%	2.08%	2.19%	0.65%	1.98%	2.22%	-0.85%	0.23%	3.10%	2.54%	-0.13%	0.56%	10.15%
Stat Arb	-1.94%	2.34%	0.60%	2.83%	1.25%	1.63%	0.14%	0.12%	0.16%	2.60%	-1.22%	0.23%	8.96%
Fixed Income RV	-1.42%	2.10%	1.49%	1.19%	0.83%	1.01%	0.49%	0.27%	0.79%	0.61%	1.31%	-0.99%	7.88%
Tail Protection	24.16%	-5.69%	-2.28%	0.30%	-1.08%	-0.83%	-0.67%	0.05%	-4.93%	0.79%	1.04%	-0.52%	7.77%
EM Macro	-12.40%	1.91%	4.64%	2.78%	3.13%	1.20%	-2.26%	-0.07%	4.92%	3.94%	-0.90%	-0.63%	5.09%
Credit	-12.55%	2.07%	2.80%	2.64%	1.40%	1.22%	0.54%	0.49%	2.57%	1.80%	1.56%	1.23%	4.84%
CTA	-1.57%	0.05%	-0.48%	-0.98%	2.31%	-0.62%	-1.67%	-0.86%	1.51%	4.50%	-0.85%	2.85%	4.05%
Vol Arb	-5.08%	1.32%	0.80%	1.00%	0.75%	-0.30%	0.87%	-0.08%	2.47%	0.58%	-0.69%	1.26%	2.73%
Quant Macro/GAA	-5.18%	1.24%	-0.35%	-0.21%	0.28%	0.23%	-0.68%	0.08%	1.77%	1.42%	-0.63%	-0.06%	-2.25%
Risk Premia	-7.55%	0.09%	-0.52%	-0.42%	1.18%	0.49%	-0.53%	-1.70%	2.08%	2.39%	0.92%	-0.48%	-4.33%
Quant EMN	-5.62%	0.13%	0.79%	-3.55%	1.34%	-0.50%	-2.62%	-2.98%	-3.81%	2.62%	-5.36%	0.34%	-17.97%

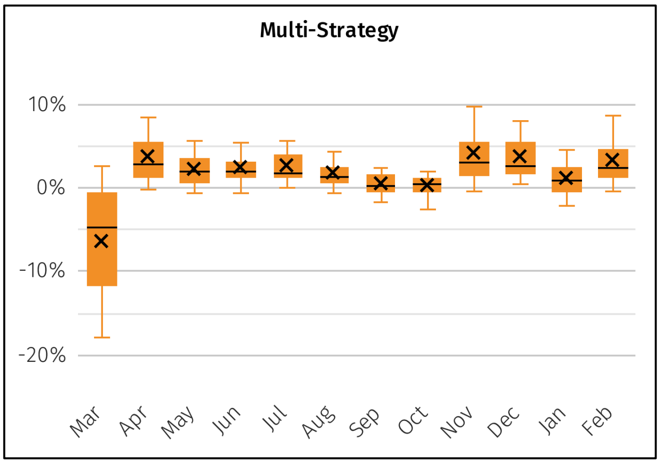
Monthly Performance Dispersion

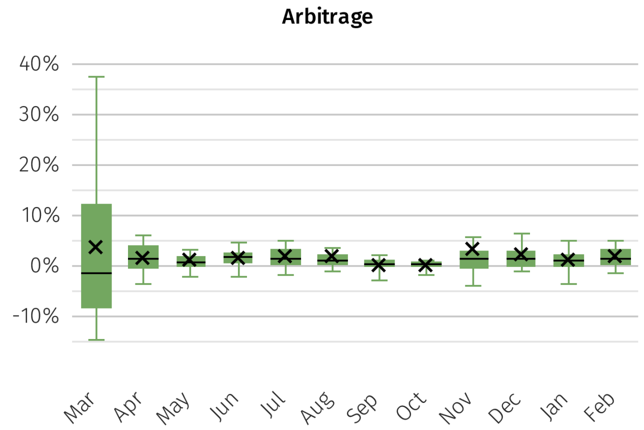


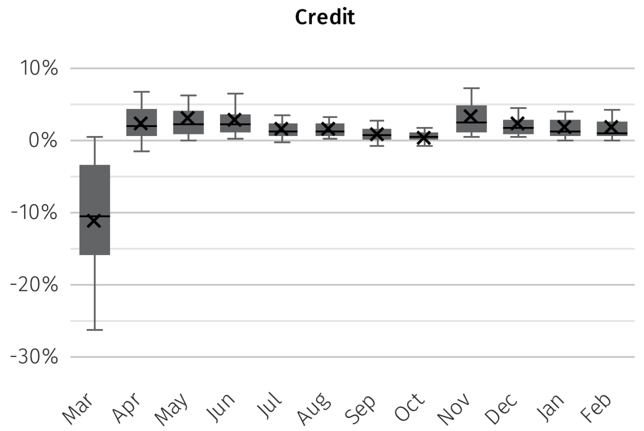
HEDGE FUND MASTER STRATEGY PERFORMANCE DISPERSION (1Yr)

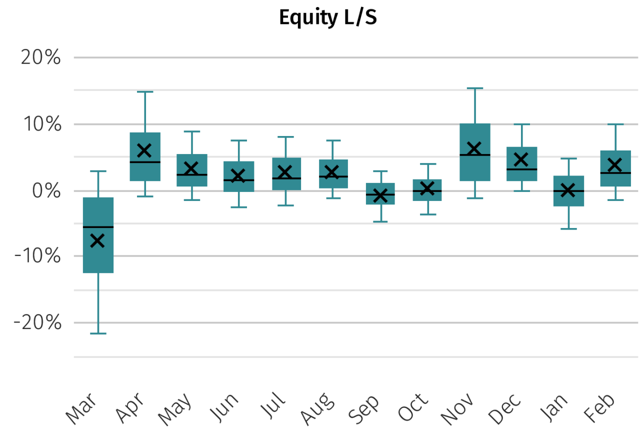


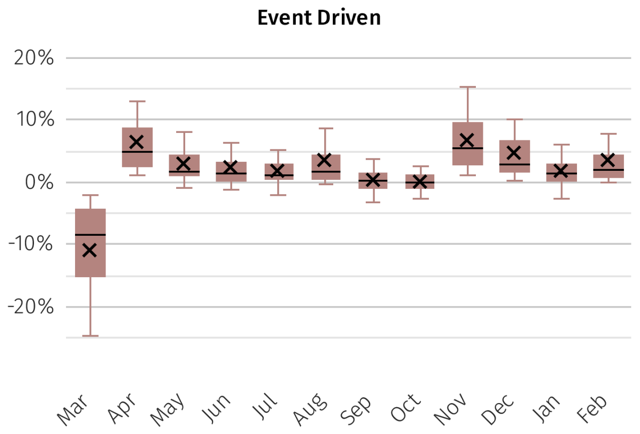
HEDGE FUND MASTER STRATEGIES NET MONTHLY RETURN DISTRIBUTION

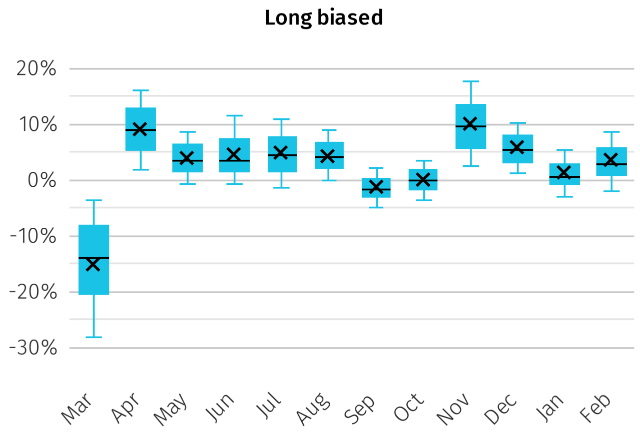









Event Driven
20%
10%
0%
-10%
-20%
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb


Long biased
20%
10%
0%
-10%
-20%
-30%
Mar
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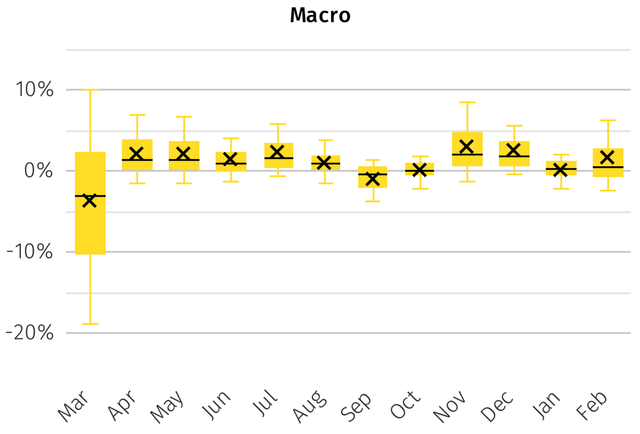
Macro
10%
0%
-10%
-20%
Mar
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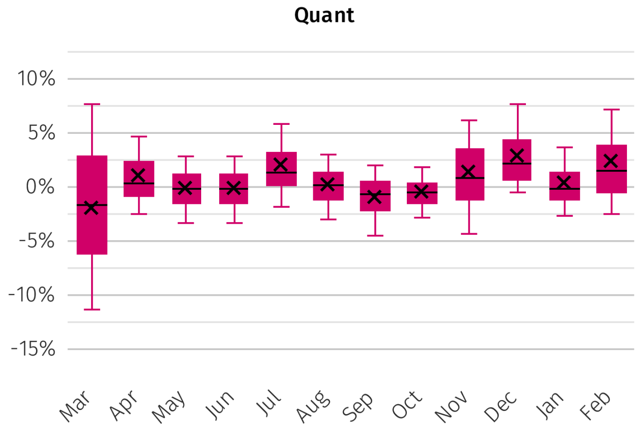
Feb


Quant
10%
5%
0%
-5%
-10%
-15%
Mar
Apr
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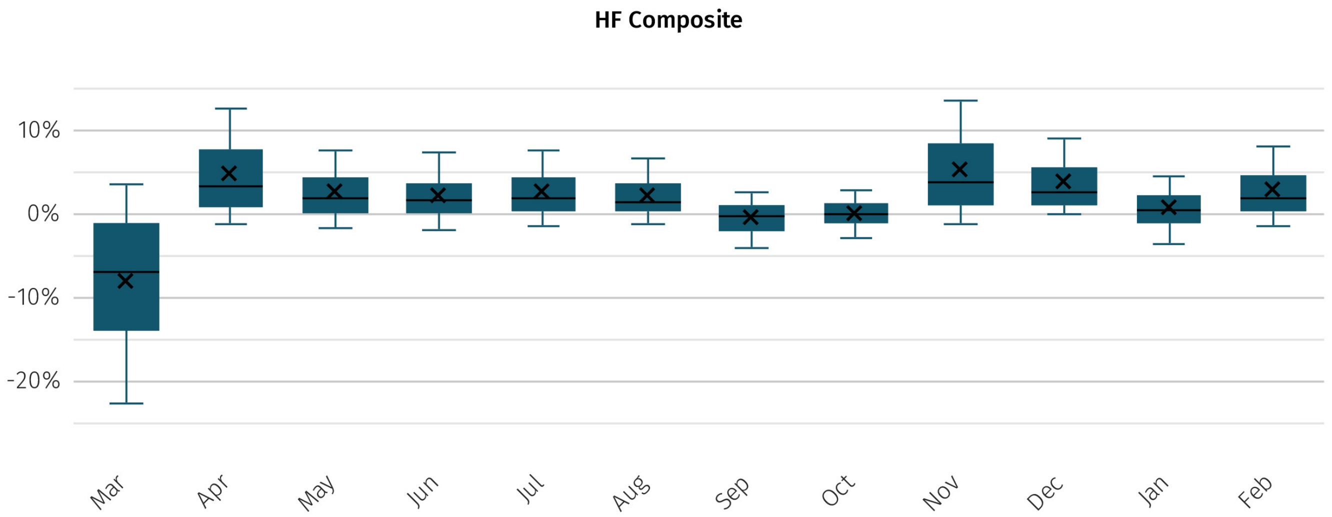
Feb


HF Composite
10%
0%
-10%
-20%
Mar
Apr
May
Jun
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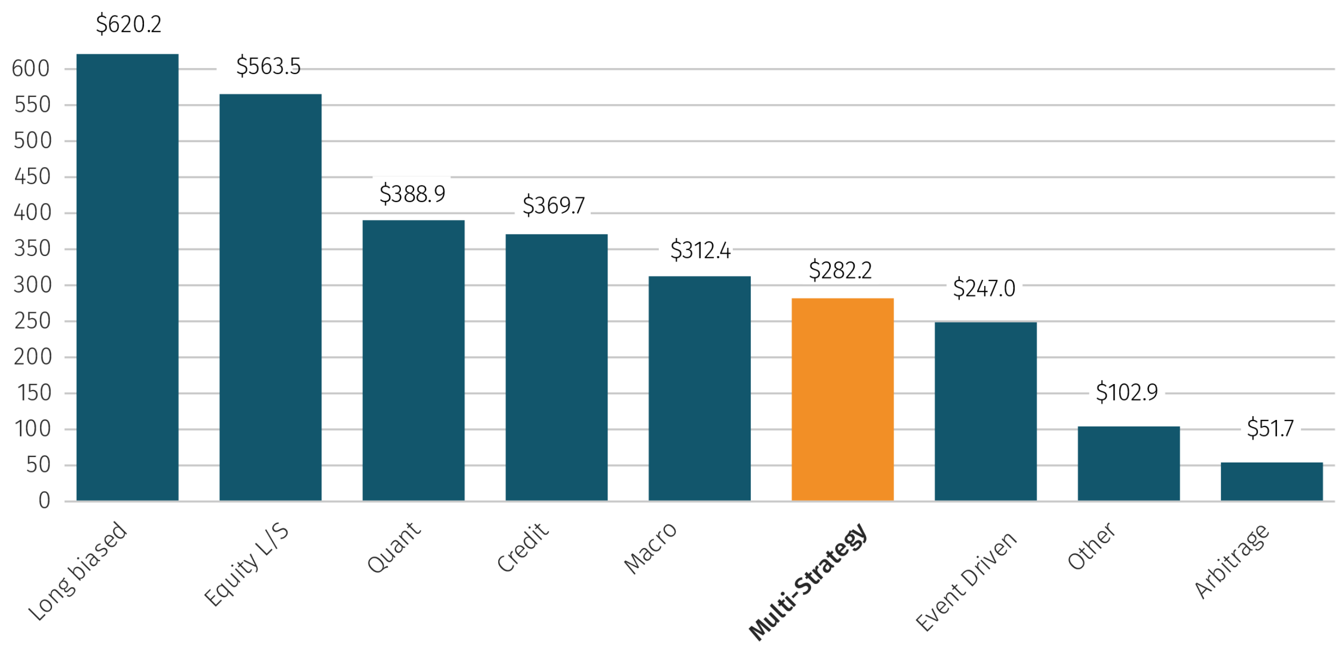
Dec
Jan
Feb

Master Strategy Overview

AUM OF MASTER STRATEGY – FEBRUARY 2021 ($ BN)

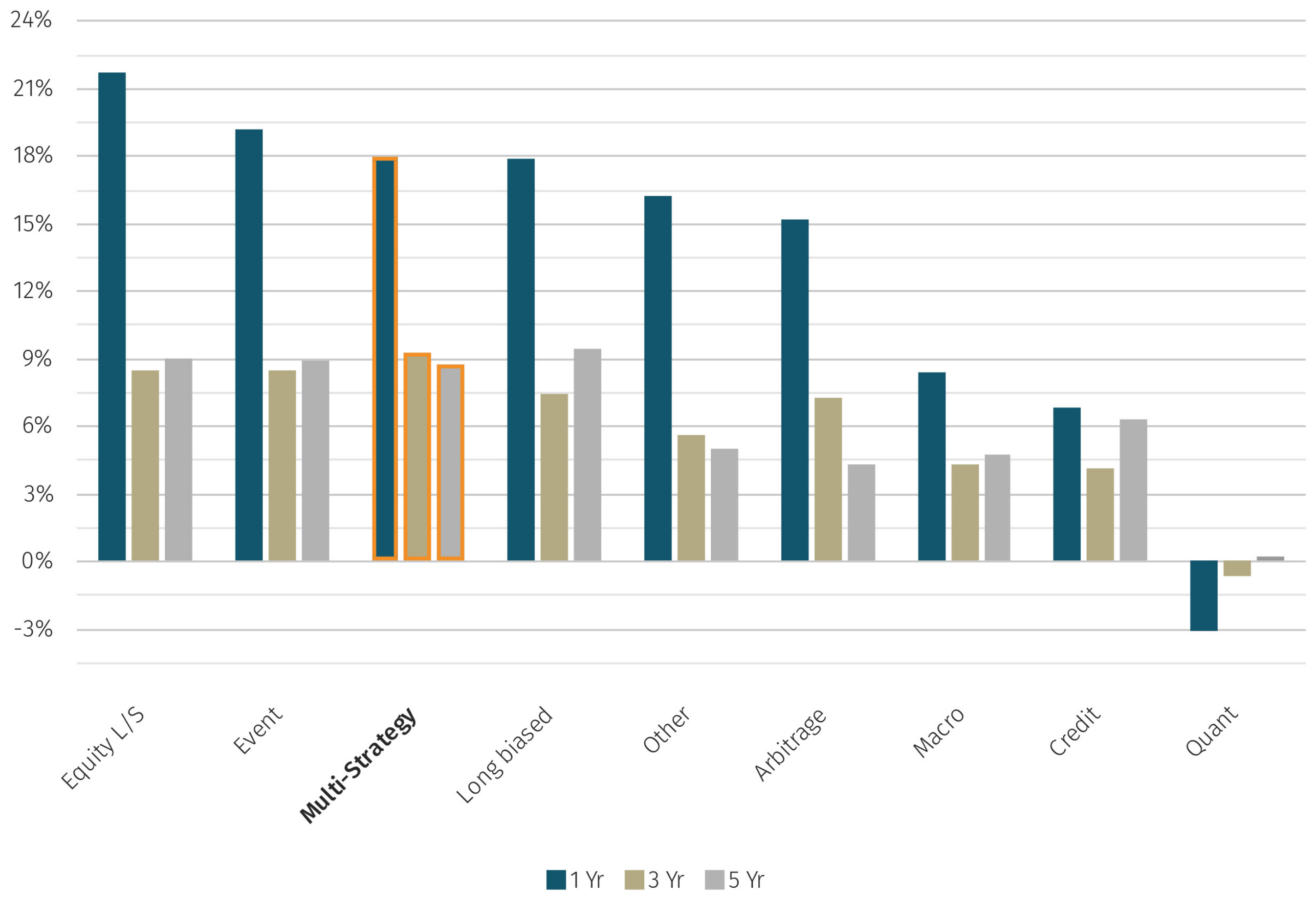


MULTIPLE PERIOD – HIERARCHICAL ANNUALISED NET RETURN

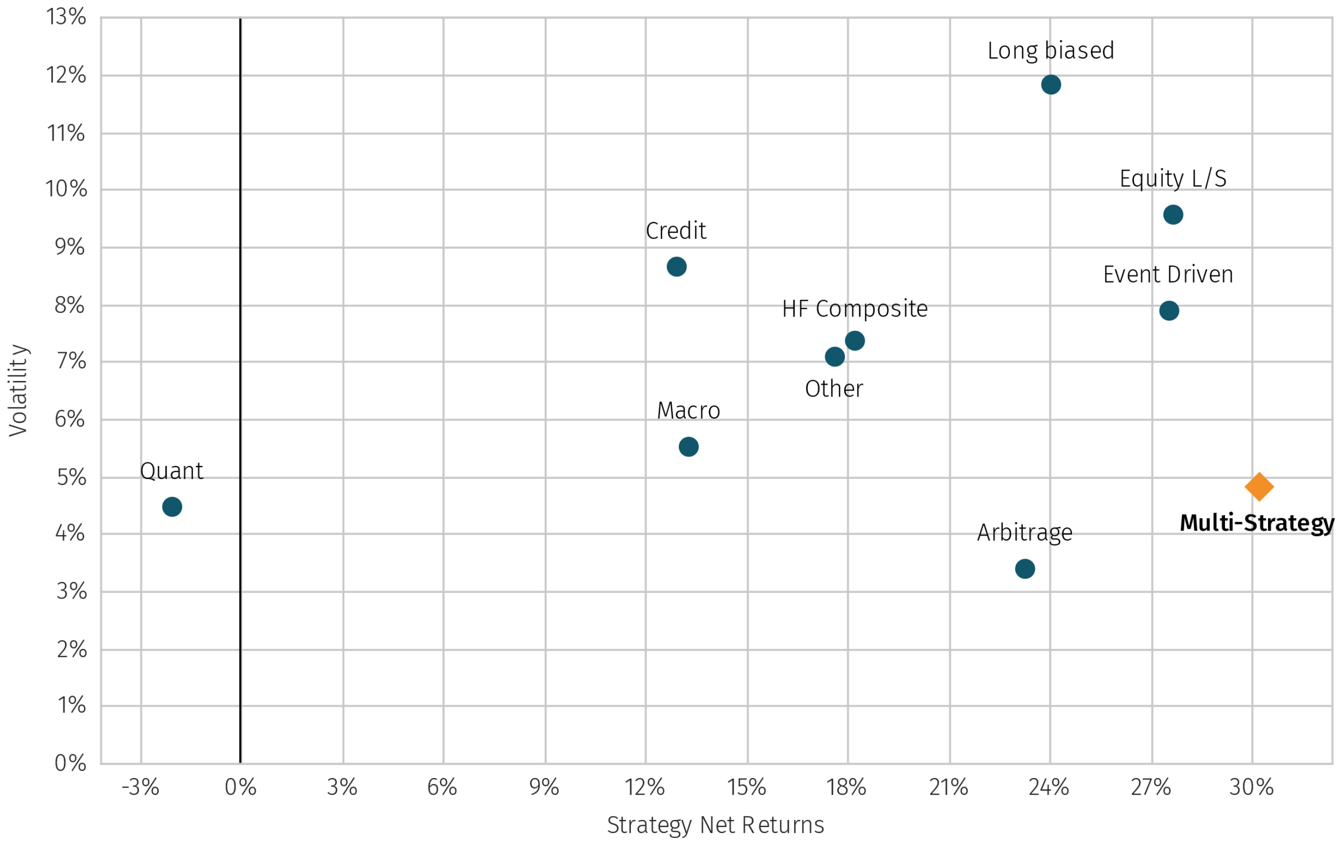
1 YEAR	3 YEAR	5 YEAR	10 YEAR
Equity L/S 21.7%	**Multi-Strategy** **9.2%**	**Long biased** 9.4%	**Multi-Strategy** **7.5%**
Event Driven 19.1%	**Equity L/S** 8.5%	**Equity L/S** 9.0%	**Equity L/S** 6.1%
Multi-Strategy **17.9%**	**Event Driven** 8.5%	**Event Driven** 8.9%	**Long biased** 5.6%
Long biased 17.8%	**Long biased** 7.5%	**Multi-Strategy** **8.7%**	**Event Driven** 5.5%
Other 16.2%	**Arbitrage** 7.2%	**Credit** 6.3%	**Credit** 4.9%
Arbitrage 15.1%	**Other** 5.6%	**Other** 5.0%	**Other** 4.3%
Macro 8.4%	**Macro** 4.2%	**Macro** 4.7%	**Macro** 3.3%
Credit 6.8%	**Credit** 4.1%	**Arbitrage** 4.3%	**Arbitrage** 2.4%
Quant -3.1%	**Quant** -0.7%	**Quant** 0.2%	**Quant** 1.8%

Source: Aurum Hedge Fund Data Engine

MASTER STRATEGY NET ANNUALISED RETURNS

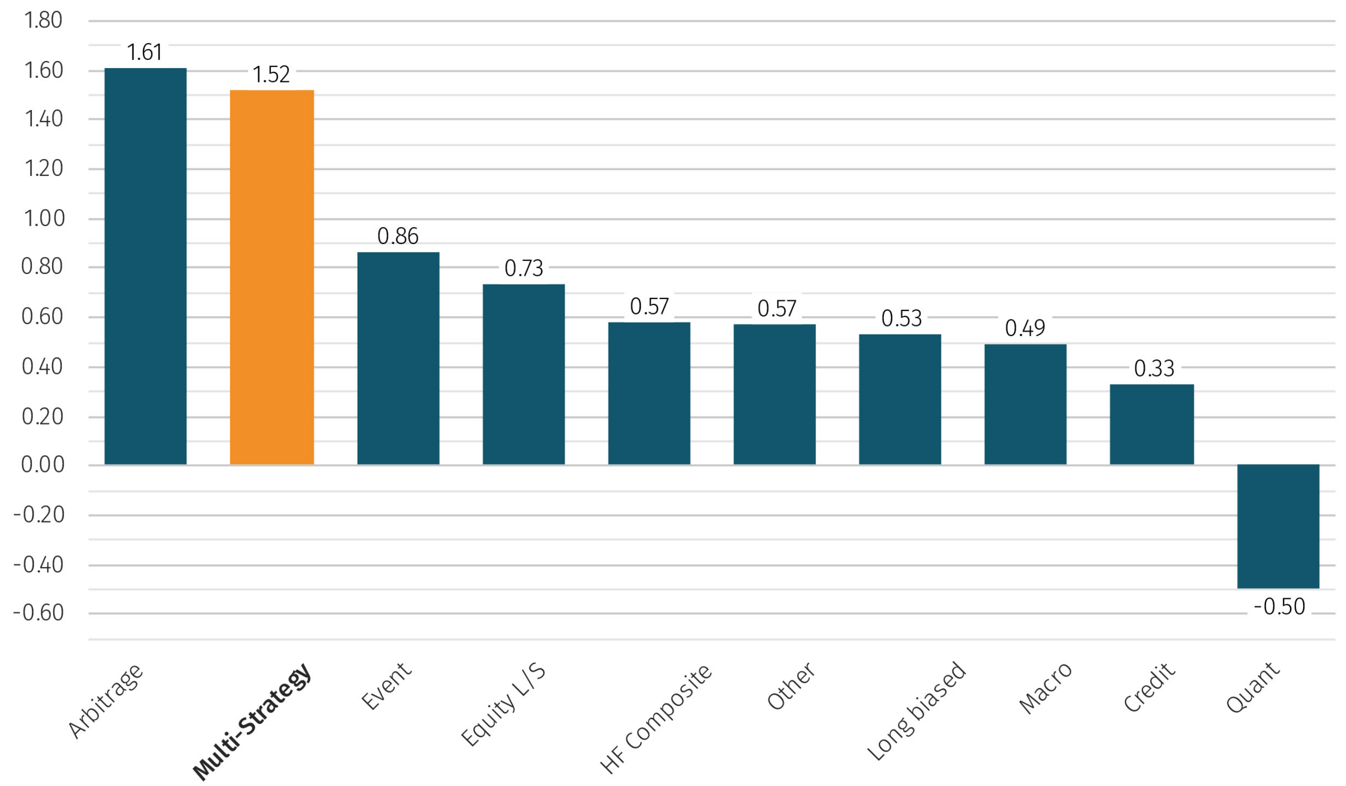


STRATEGY NET TOTAL RETURN VS ANNUALISED VOL (3 YR)

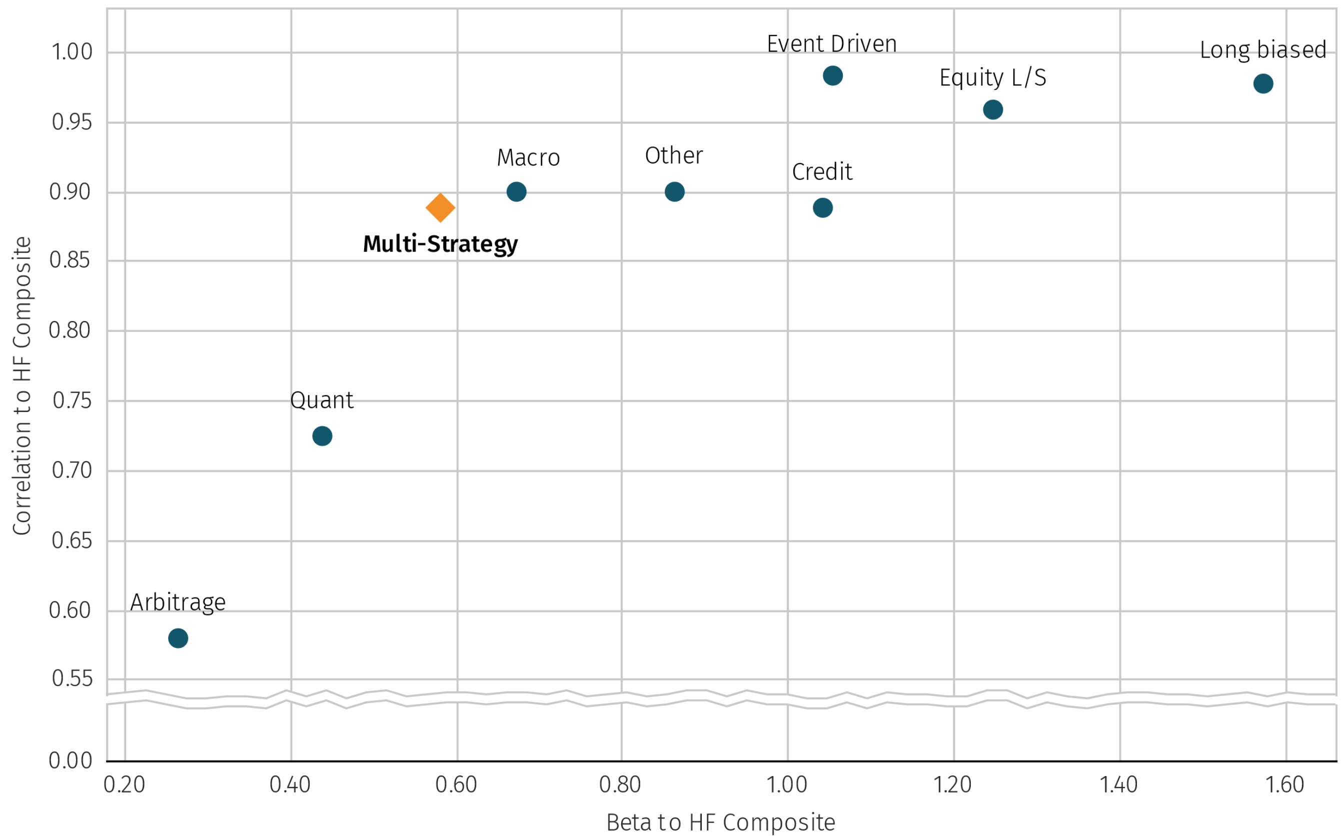


Source: Aurum Hedge Fund Data Engine, Bloomberg.
HF Composite = Aurum Hedge Fund Data Engine Asset Weighted Composite Index.

SHARPE RATIO BY HEDGE FUND STRATEGY (3 YR)*



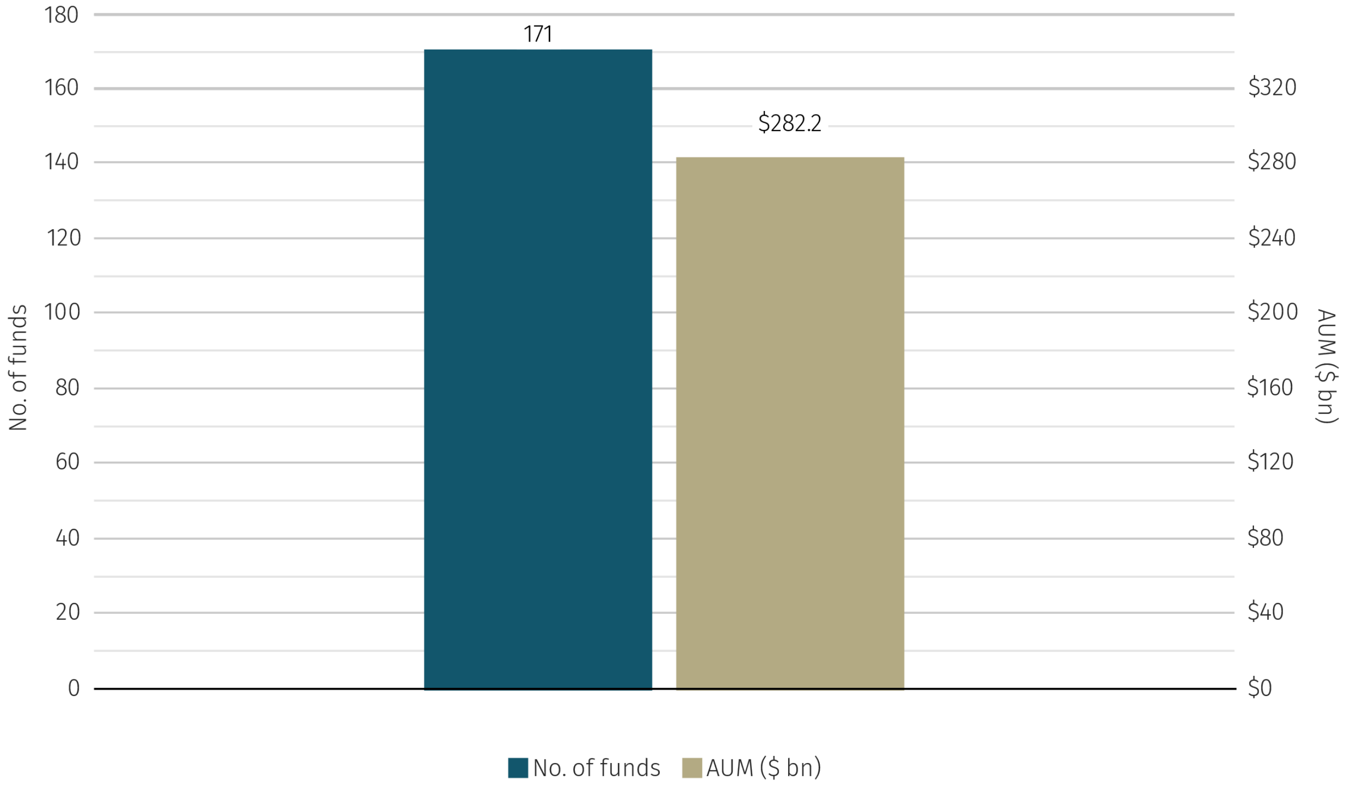
STRATEGY CORRELATION AND BETA TO HF COMPOSITE (3 YR)



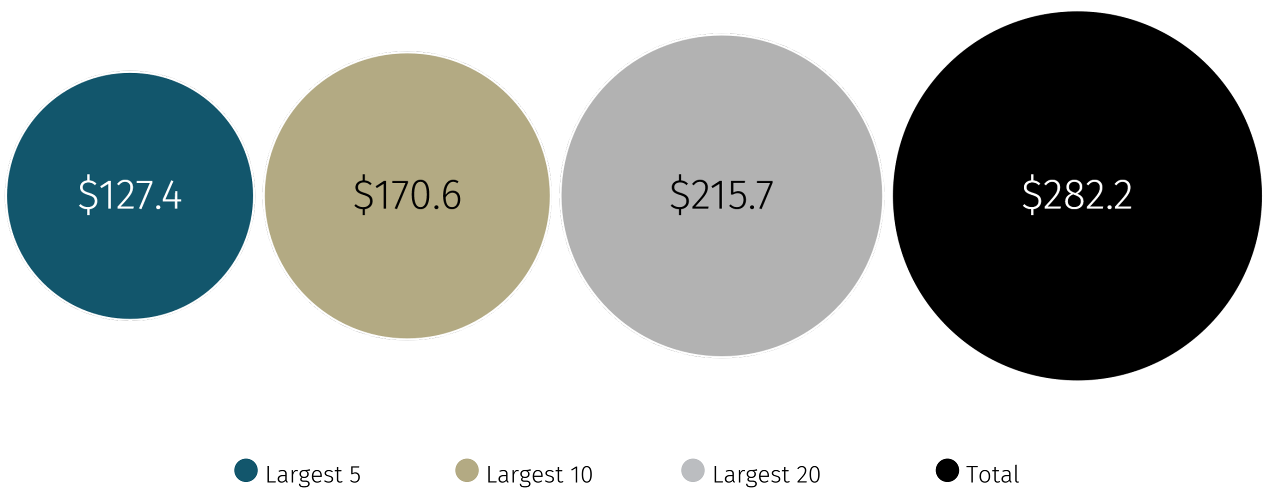
Source: Aurum Hedge Fund Data Engine, Bloomberg.
*Risk Free Rate for the period Feb 18-Feb 21 = 1.65%, using rolling 3 month dollar LIBOR
HF Composite = Aurum Hedge Fund Data Engine Asset Weighted Composite Index.

Multi-Strategy Universe

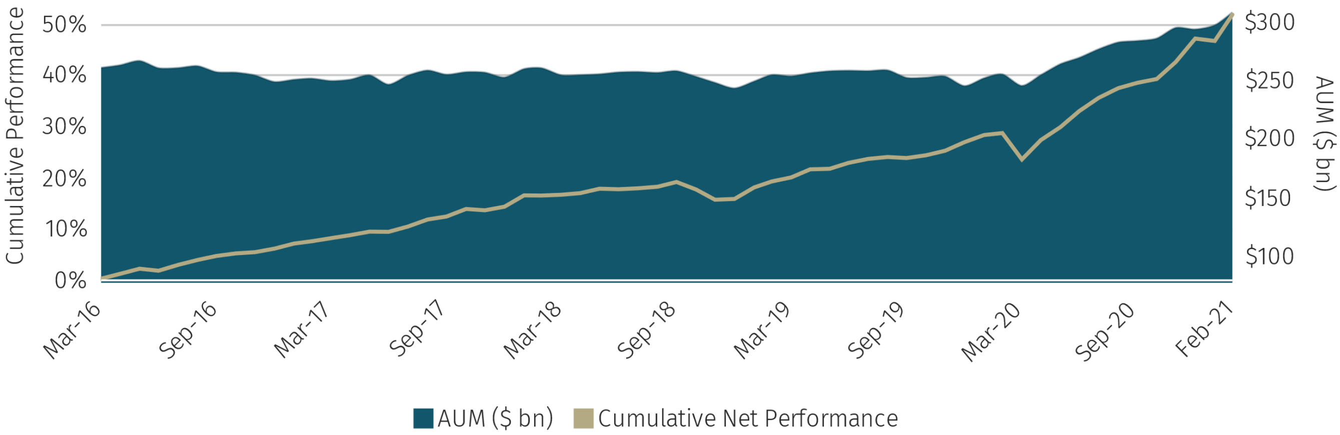
NUMBER OF FUNDS AND AUM



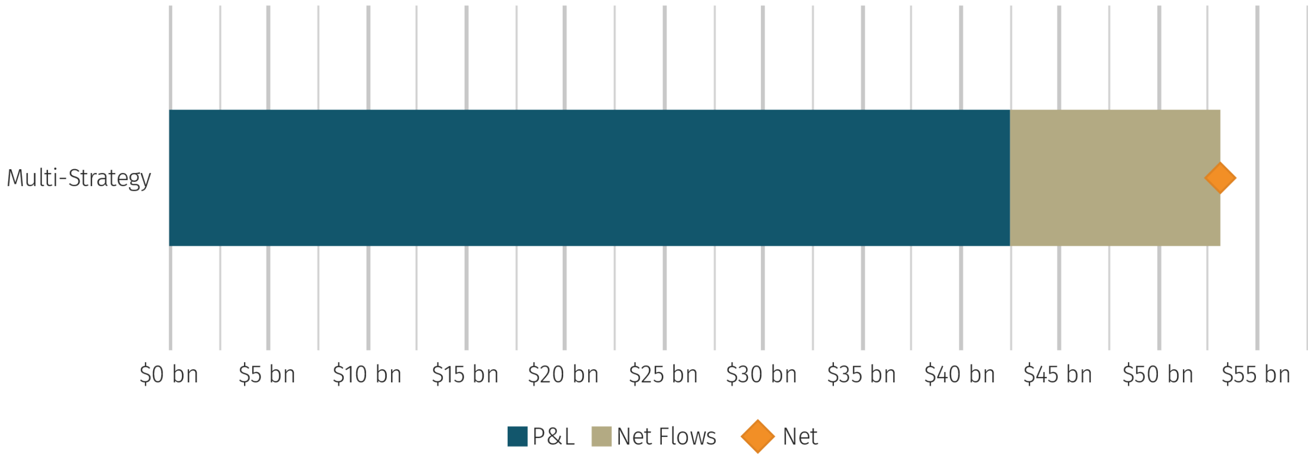
FUND CONCENTRATION ($ BN)



MASTER STRATEGY ASSETS (5 YR)*



12-MONTH CHANGE IN AUM



TERMS AND CONDITIONS

	Median Redemption Notice (Days)	Median Redemption Frequency	Weighted Avg. Redemption Total (Days)[1]	Weighted Avg. Management Fee	Weighted Avg. Performance Fee
Multi-Strategy	45	Monthly	170	1.83%[2]	20.47%

1. Weighted Avg. Redemption Total (Days) is the weighted Avg. of both redemptions notice days and redemption frequency days.

2. Some funds operate a pass through fee structure in addition to, or instead of, a traditional management fee. Aurum does not currently include funds which operate a pass through structure within this management fee calculation (even if they also separately charge a management fee), accordingly the weighted average management fee above excludes funds with this fee structure.

Definitions

MULTI-STRATEGY

A hedge fund where the capital is deployed across multiple strategies and asset classes. Funds are typically extremely diversified and employ multiple PMs/risk taking groups.

ARBITRAGE

Strategies that look to benefit from mispricing's of the same instrument/asset or extremely closely related instrument.
The strategy covers the following areas: convertible bond arbitrage, tail protection, volatility or opportunistic trades in this area, including but not limited to other areas such as capital structure arbitrage, ETF arbitrage or arbitrage of other closely related instruments.

Convertible Bond:
Traditionally the strategy looks to isolate mispriced components of convertible securities in order to capture a return to fair value. CB's essentially consist of a bond plus an embedded call option on the equity. Key valuation components relate to the credit (bond component) and the volatility (option and equity component). Those components other than the component believed to be mispriced are typically hedged in order to isolate the mispricing.

Tail Protection:
Strategy that explicitly look to benefit from large market moves, typically either in the form of large spikes in volatility (either from implied or realised volatility), or from significant moves in the underlying spot price (long gamma) or a particular asset or assets. Some tail protection strategies also look to benefit from sudden/large moves in spread relationships, which are typically tight, but which can move to extremes during periods of stress.

Volatility Arbitrage:
Traditionally the strategy looks to identify the mispricing of volatility. Funds may incorporate exposure to factors such as implied volatility, realised volatility, dividends, skew, term structure and correlation. Funds may be biased short, long or neutral to Greek exposures such as delta, vega and gamma.

Opportunistic:
Strategy that look to benefit from inconsistent/mis-pricing of the same instrument/asset or extremely closely related instruments/assets. Opportunistic arbitrage strategies typically have the flexibility to trade across multiple areas, but tend to specialise in a combination of volatility trading, convertible bonds and capital structure arbitrage trades. But they may also focus on other niche areas in order to capitalise upon perceived mis-pricing. The narrow arbitrage focus is why they are better considered as part of arbitrage, rather than in the broader multi-strategy classification.

CREDIT

Strategies that focus the vast majority of their trading on debt instruments, or instruments that are far more 'debt-like' in nature.

Credit:
Typically focusing upon investments in higher yielding (but still performing) non-investment grade securities, primarily corporate - and sometimes sovereign - debt. The strategy is typically expressed with a net long bias. More relative value-oriented credit funds take a more balanced long/short approach (although still typically have a net long bias). Relative to longs, the short positions may be outright, related by sector, and/or within the same capital structures. Whilst not heavily trading oriented (given the associated costs) the strategy is more event-focused than passive and as such tends to have shorter investment horizons than something like the Distressed category. Returns are generated from a blend of coupon income and capital appreciation due to spread tightening (or widening on shorts).

Distressed:
Strategy typically invests in non-investment grade corporate - and sometimes sovereign - debt, which is frequently stressed (e.g., performing, but priced at a significant discount to par) or defaulted (e.g., where a balance sheet restructuring will occur). Some also invest in deeply discounted and/or subordinate structured product. Time horizon is typically longer dated.

EQUITY LONG/SHORT

Investing in global stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

US Equity Long/Short:
Investing the all or the vast majority of their portfolio into US stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in

their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Asia Pacific Equity Long/Short:
Investing the all or the vast majority of their portfolio into Asian Pacific stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

European Equity Long/Short:
Investing all or the vast majority of the portfolio in European stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Global Equity Long/Short:
Investing the portfolio in global stocks, both on the long and short side. The fund is agnostic to country/region to maintain flexibility. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Fundamental Equity Market Neutral:
Investing the portfolio in stocks, both on the long and short side. To classify as 'equity market neutral' funds are expected to run with a very tight net exposure bias, which over the longer term should be close to zero. Note, different funds use different methodologies, e.g., some may run to be 'beta neutral', while others may be cash neutral (with a tolerance band around the zero level). The distinguishing characteristic is that such funds are typically very low net at all times, but some may run with varying degrees of factor or industry exposure, while others may have more stringent risk parameters around such exposures. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Sector:
Investing the portfolio in a specific sector, both on the long and short side. The funds may or may not be agnostic to country/region to maintain flexibility, however sector specialist funds tend to be US focused given that it is a very deep/broad market with sectors that are large enough to accommodate diversified sector specific portfolios. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Other L/S:
Long short equity investing, which does not readily fit into the other classification taxonomy.

EVENT DRIVEN

Broad strategy category covering funds that invest in securities of companies facing announced and anticipated corporate events. This includes, but is not limited to: M&A, Spin-offs, Company restructurings, some distressed situations (although if this is the dominating part of the strategy it will be classified as 'credit-distressed'). The strategy identifies mispriced securities with favourable risk/reward characteristics based upon differentiated views of value-unlocking catalysts, event-probabilities and post-event valuations.

Activist:
Activist hedge funds invest in companies that they feel are undervalued and the managers then attempt to drive the value creation process by influencing corporate management to undertake initiatives that they feel will benefit shareholders. This can include a number of activities, including but not limited to: capital structure restructuring, change in operating strategy/capital allocation, change in the board/management, change in corporate governance or the outright sale of the enterprise. Funds typically own large stakes in the companies they invest in as investors need to be a large enough shareholder to influence management.

Merger Arbitrage:
Strategy typically involves taking positions in the securities of a company being acquired in a merger or acquisition. Due to the risk of a deal-break as well as time value of money, the securities typically trade at a discount to the deal-price/value (deal-spread). Primary risk is when deals break, which can lead to asymmetric losses to the downside. Funds will typically trade cash deals and also share-for-share deals, where the fund will short the securities they expect to receive upon deal closure (locking in the deal spread). In addition to M&A, managers may also invest in other situations that involve process driven catalysts.

Multi-strategy:
Whilst these are funds investing across multiple strategies, they are characterised by their overwhelming focus on the broad event-driven space and therefore placed in their own category. Such funds consistently generate a significant portion of their P&L from the primary event-driven investing categories: merger arbitrage, soft-catalyst event-driven situations (spin-offs, spin-

outs, share- class arbitrage, non-mandatory shareholder elections, index-rebalancing, holdco/subsidiary relative value trade, high probability potential merger 'targets', etc.) and/or activist investing. Some funds may also allocate a portion of their capital to Distressed (which can fall under the category of event- driven investing), however, if the majority of the risk is in consistently in the distressed arena, it falls under the 'credit/distressed' categorisation.

Opportunistic:
Has some similarities to the event-driven 'multi-strategy' classification however, as the name suggests, these funds tend to be very opportunistic and dynamically adjust their capital allocation between various event-driven trades. These funds tend to also be more value and soft catalyst oriented. Such funds may also place 'special situations' trades, looking to unlock value taking various positions in the capital structure (i.e., could be debt or equity). Opportunistic funds have the flexibility to trade all areas of the event space (M&A, Activist, soft catalyst and distressed investing) but will do so on an opportunistic basis, they also may concentrate a large portion (or even at times all) of the risk in a specific area, unlike event driven - multi-strategy funds, which are typically always allocated across multiple sub-strategies at all times.

LONG BIASED

Long only or overwhelmingly long-biased strategies. Covers multiple asset classes.

MACRO

Macro funds take positions (can be either directional or relative-value) in currencies, bonds, equities and commodities, based on fundamental and qualitative judgements. Investment decisions can be based on a manager's top-down views of the world (e.g., views on economy, interest rates, inflation, government policy or geopolitical factors). Relative valuations of financial instruments within or between asset classes can also play a role (or be the dominant part) in the investment process. Primary areas of focus are the liquid instruments of G10 countries, although they may also include emerging markets.

Fixed Income Relative Value:
Fund generates all or a substantial majority of the P&L/risk from relative movements across fixed income assets and their derivatives. Funds are typically looking to profit from arbitrage, mean-reversion or positive carry. Most traders aim to be either duration neutral or 'risk neutral' (i.e., matching DV01 across long and short positions). Most managers incorporate some use of leverage as an integral part of the strategy. Note - that some managers in the space may also trade a smaller portion of the book in more 'classic' directional macro trades, but funds in the FIRV category are generating a minority of the risk from this area.

Commodities:
These funds are primarily focused on trading commodity futures and options from both the long and short side. They can occasionally include the tactical use of equities, currencies, or fixed income instruments, but commodity futures/options should make up the bulk of the risk. The manager is typically looking for longer term trends and supply/demand imbalances within and between commodity markets.

Global Macro:
Macro funds take positions (can be either directional or relative-value) in currencies, bonds, equities and commodities, based on fundamental and qualitative judgements. Investment decisions can be based on a manager's top-down views of the world (e.g., views on economy, interest rates, inflation, government policy or geopolitical factors). Relative valuations of financial instruments within or between asset classes can also play a role (or be the dominant part) in the investment process. Primary areas of focus are the liquid instruments of G10 countries, although they may also include emerging markets. Macro managers that do not have a particular specialisation in areas such as commodities, emerging markets or fixed income relative value fall under this more general classification.

Emerging Markets:
Macro funds take positions (can be either directional or relative-value) in currencies, bonds, equities and commodities, based on fundamental and qualitative judgements. Investment decisions can be based on a manager's top-down views of the world (e.g., views on economy, interest rates, inflation, government policy or geopolitical factors). Relative valuations of financial instruments within or between asset classes can also play a role (or be the dominant part) in the investment process. Primary areas of focus are the emerging markets.

QUANT

Systematic strategies: Funds trade securities based strictly on the buy/sell decisions of computer algorithms. Quant strategies primarily fall into the following categories: Quantitative Equity Market Neutral, Statistical Arbitrage, Quant macro/GAA (Global Asset Allocation), CTA, and risk-premia.

CTA:
CTAs (Commodity Trading Advisors) take primarily directional positions in index level or macro instruments, such as futures or FX contracts, in a systematic fashion. Technically, a CTA is a trader of futures contracts as defined by the CFTC and historically, there were many CTAs who were not systematic; such traders are more likely to be classified as 'Global Macro'. CTAs are typically

extremely systematised with straight through processing from signal generation to execution. Many, but by no means all, CTAs are trend following (using historical prices to determine predictable 'trending patterns') buying into markets where prices are rising and selling where markets are falling. When rising markets slow down/stop rising, trend-followers typically reduce its position and will eventually reverse its position into a short position, which it will hold until the market starts to rally again. The strategy is known for running with profits and cutting losses. Other models used in CTAs may include carry, seasonality, mean reverting or pattern recognition systems, models driven by fundamental data or non-traditional data sources. Some CTAs can also trade very short-term signals driven by market microstructure anomalies and patterns.

Quant Macro / GAA:
GAA (Global Asset Allocation) is a systematic approach to Global Macro, with managers taking positions in global markets based on quantitative analysis, taking in information based primarily on economic data, but also incorporating price related information. The strategy is highly data and technology intensive. The positions tend to be relative value based, but they may also take directional positions in instruments such as futures, FX and baskets of equities, ETFs, swaps and other instruments. Signals may be arranged into relative value asset class models, cross asset class models / directional trades. Signals are also often classified under a number of factor headings: value, carry, momentum etc.

Statistical Arbitrage:
Statistical arbitrage funds typically take price data and its derivatives, such as correlation, volatility and other forms of market data, such as volume and order-book information to determine the existence of patterns. These patterns can help the manager forecast the future return of a stock, often over a relatively short timeframe. Typical signal types are: mean-reversion, momentum and event-driven. Mean- reversion looks to take advantage of the phenomenon of short-term price movements occurring due to supply/demand imbalances then moving back to an equilibrium level. Momentum models look for patterns in price data that suggest that price movements will be more persistent (i.e., trend). Other statistical arbitrage funds will look to incorporate more discrete information into their process from events (e.g., publishing of analyst earnings estimates, news flow, etc.). Whilst statistical arbitrage funds tend to focus more on 'technical' models, some may also incorporate some longer-term models that are driven by fundamental data (e.g., stock value models, growth, etc.), however, if these models are the more dominant driver of risk, then the fund is likely to be classified as Quantitative Equity Market Neutral. Statistical arbitrage funds are typically run with a very low level of beta and are market neutral, however, this may not always be the case, with some funds able to take significant directional risk; however, given the higher frequency trading nature of such funds, they are not expected to have significant correlation to markets over time.

Quant Equity Market Neutral:
Traditional QEMN strategies take fundamental data, such as analyst earnings estimates, balance sheet information and cash flow statement statistics, and systematically rank/score stocks against these metrics in varying proportions. The weights of the scores of the different fundamental data sources may be fixed or dynamic. Managers may construct a portfolio using an optimisation process or by applying simpler rules combined with risk constraints so as to create a portfolio that is dollar and/or beta neutral, and typically with minimal sector exposure. Traditional QEMN portfolios consists of exposure to: Value (looking for stocks mispriced relative to their fundamental value, e.g. based on P/E, P/B, cash flow, etc.); Quality (looking at metrics such as levels of debt, stability of earnings growth, balance sheet strength); momentum (looking at past returns over a preset timeframe ranging from days to months); however, these are common factors that are relatively easy to exploit/replicate - hence the proliferation of risk-premia products that operate in this space.

Risk Premia:
Hedge fund risk premia products typically seek to capture the fundamental insights of a class of hedge fund strategies (hedge fund risk premia / alternative risk premia) along with a meaningful proportion of the expected returns those strategies can earn - using a dynamic but clearly defined process. Funds typically have exposure to a well-diversified portfolio of hedge-fund premia. Premia can cover everything from equity premia (Equity market neutral - trading across value, quality, growth and momentum factors, as well as EM premia), macro premia (e.g., trend following, or EM premia), to arbitrage strategies (e.g., risk arbitrage - holding a portfolio of merger targets diversified by sector and deal type; convertible arbitrage, etc.). The strategies are typically very well understood, backed up by academic research and implemented systematically.

AURUM

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